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No. 86-495, 86-624, 86-625

IN THE

Supreme Court of the United States

October Term, 1986

THE UNITED STATES OF AMERICA; K MART CORPORATION; and 47th STREET PHOTO, INC.;
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS; CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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AMICUS CURIAE BRIEF OF DARBY DENTAL SUPPLY COMPANY, INC., DENTAL WHOLESALERS, INC., and SPENCER MEADE DENTAL, INC.

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Question Presented

Can an American affiliate of a foreign manufacturer invoke Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, to prohibit the parallel importation of gray goods?

Parties to the Proceeding

The petitioners are the United States of America, K Mart Corporation and 47th Street Photo, Inc. The respondents are Coalition to Preserve the Integrity of American Trademarks (COPIAT), Cartier, Inc., and Charles of the Ritz Group, Ltd. The petitions have been consolidated for consideration by the Court, upon Motion of petitioner United States of America.

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Darby Dental Supply Company, Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc. respectfully submit this brief as amici curiae in support of the petitioners The United States of America, K Mart Corporation and 47th Street Photo, Inc.*

* Pursuant to Rule 36.1 of this Court consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

Interest of Amicus Curiae

Darby Dental Supply Company, Inc., Dental Wholesalers, Inc. and Spencer Meade Dental, Inc. (herein called "Darby") are defendants in an action pending in the Eastern District of Pennsylvania entitled *Premier Dental Products Company* v. *Darby Dental Supply Company, Inc., et al.* (Civ. Action No. 85-1780) 794 F.2d 850 (3d Cir. 1986). That action is one of the many "gray goods" actions which have been the subject of intense controversy resulting in lawsuits such as the *COPIAT** case now before this Court.

In the *Premier* v. *Darby* case, a West German manufacturer, ESPE Fabrik Pharmazeutischer Praparate, GmbH ("ESPE") is the sole manufacturer of a patented polyether dental impression material sold under the trademark "Impregum". ESPE registered the trademark in the United States in 1968.

In 1974 ESPE designated Premier Dental Products Company ("Premier"), to be ESPE's exclusive United States distributor of Impregum.

Darby is a mail order supplier selling dental products and equipment to dentists. From the late 1970's through 1982 Darby brought Impregum from Premier. In 1983 Darby began buying Impregum in Europe from other ESPE Impregum distributors and importing it into the United States, rather than pay the higher prices charged by Premier. ESPE and Premier wanted to halt Darby's importation of Impregum to maintain their exclusivity on the American market.

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* The case at bar is referred to as *COPIAT*.

Premier could not charge Darby with trademark infringement under the Lanham Act (15 U.S.C. 1114, 1124, 1125) or violation of the Tariff Act (19 U.S.C. 1526) because Premier did not own the trademark. ESPE could not charge Darby with trademark infringement because ESPE had sold the very Impregum Darby was importing,* and ESPE could not charge Darby under the Tariff Act because ESPE is not a United States citizen or a corporation created or organized within the United States (19 U.S.C. 1526(a)).

On June 20, 1984 ESPE and Premier implemented a plan they hoped would stop Darby's importation of Impregum while keeping control of the trademark and the product firmly in ESPE's hands. They entered into an "assignment" which purported to transfer the United States trademark in Impregum to Premier without consideration for, "the purpose . . . [of permitting] Premier to act against infringers and unauthorized importers of Impregum . . .". The assignment agreement required Premier to reassign the Impregum trademark to ESPE on demand.

This "assignment", which cost Premier nothing and transferred no power or control over the trademark or the product from ESPE to Premier, became the basis for charging that Darby's actions were illegal after June 20, 1984, whereas they had been proper prior to that day.

When Darby continued to import Impregum despite notice of the assignment, Premier sued to enjoin such im-

* See *Prestonettes, Inc.* v. *Coty,* 264 U.S. 359, 44 S. Ct. 350, 68 L. Ed. 731 (1924).

portation under the Lanham Act, 15 U.S.C. 1114, 1124 and 1125, and the Tariff Act, 19 U.S.C. 1526, and moved for a preliminary injunction. The district court granted the preliminary injunction, giving full force and effect to the "assignment" by holding that Premier was the owner of the United States trademark and was therefore entitled to invoke Section 526 of the Tariff Act against Darby.

The *Premier* v. *Darby* case is now pending before the District Court for trial. If the device employed by Premier and ESPE is ultimately successful in making Darby's parallel importation of gray goods illegal, this Court's decision in *COPIAT* will be of little importance. Any foreign manufacturer will be able to utilize Section 526 to stifle legitimate competition by entering into a trademark assignment with a designated exclusive American distributor. Then the designated exclusive distributor will invoke Section 526 to stop the importation of gray goods and the foreign manufacturer together with its distributor can charge Americans whatever they like without fear of competition. If such a device succeeds, Section 526, which was enacted to protect American citizens from fraudulent activities of foreign manufacturers, will have been turned on its head to protect foreign manufacturers in their schemes to bilk American consumers by charging higher prices for their products here than abroad.

Summary of Argument

Section 526 should not apply where title to the United States trademark is held by a subsidiary, an agent or a designated distributor of the foreign manufacturer because in such a case the United States title holder does not have the requisite ownership interest in the United States trademark required by the statute.

ARGUMENT

The key word in Section 526 is "owned". Senate debate prior to enactment highlighted the importance of ownership in the statute (62 Cong. Rec. 11,605) (1922) and the section was amended in conference to add the ownership requirement. (H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922)).

The statute was enacted to protect Americans who had purchased United States trademarks from foreign manufacturers and then faced competition from foreign goods bearing the same trademark placed on the goods by the foreign manufacturer who had sold his United States trademark rights. The legislation was in direct response to the *Katzel* case (*A. Bourjois & Co.* v. *Katzel*, 275 Fed. 539 (2d Cir. 1921), rev'd, 260 U.S. 689, 43 S. Ct. 244, 67 L. Ed. 464 (1923)) where an American purchaser of the Java trademark for face powder was confronted with such unfair competition.

It is impossible to read the short Senate debate on the statute without concluding that Section 516 was enacted to protect American companies that purchased and owned trademarks such as Bayer aspirin (Sen. McCumber, 72

Cong. Rec. 11,603), Hunyadi Janos water (Sen. Sutherland, 72 Cong. Rec. 11,603) or Java face powder (*Katzel*) and were threatened with competition from foreign goods bearing those very trademarks. Section 526 protects United States trademark owners who have valid, bona fide, beneficial economic, proprietary interests in the United States trademarks.

Differences over the role of the Customs Service when enforcing Section 526 have resulted in conflicting opinions in three Courts of Appeal related to the question of bona fide trademark ownership. These cases have interpreted the statute in the context of challenges to the validity of Customs regulations, 19 C.F.R. 133.21-(c)(1)-(3), which permit entry of foreign goods bearing a United States trademark if the United States trademark owner and the foreign manufacturer are the same or affiliated companies. In these three cases United States trademark claimants challenged the right of the Customs Service to exempt any foreign goods bearing a United States trademark from seizure at the border. *Olympus Corporation* v. *United States*, 792 F.2d 315 (2d Cir. 1986), aff'g 627 F.Supp. 911 (E.D.N.Y. 1985) ("Olympus"); *Vivitar Corporation* v. *United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. den.*, 474 U.S. —— 106 S. Ct. 791, 88 L. Ed. 769 (1986) aff'g 593 F.Supp. 420 (Ct. Int'l Trade 1984), ("Vivtar"); *Coalition to Preserve the Integrity of American Trademarks* v. *United States*, 790 F.2d 903 (D.C. Cir. 1986) rev'g 598 F.Supp. 844 (D.D.C. 1984) ("COPIAT"). The conflicting decisions of these three Circuit Courts reflect a fundamental disagreement concerning the meaning of Section 526, and leave the Customs Service in a quandary as to its legal duty.

The D.C. Circuit in *COPIAT* found the statute so clear as to invalidate Customs regulations that limited Customs' duty to exclude all foreign goods bearing a trademark owned and registered by a United States Citizen or company. The Federal Circuit in *Vivitar* upheld the Customs regulations because, "protection under the statute is unclear or depends upon resolution of complex factual situations . . .", 761 F.2d at 1570.

The dispute over whether the statute is simple or complex, clear or unclear, is highlighted by the opinions of the Second Circuit majority and dissent in *Olympus.* The majority upheld the Customs regulations as a valid exercise of administrative enforcement discretion because the numerous variations in gray market situations would involve Customs in determining complex issues such as "isolable good will", "price discrimination" and "antitrust law". 792 F.2d at 320. The dissent described this as a "bootstrap argument", noting that "Enforcement of Section 526 as written is simplicity itself." 792 F.2d at 322. The dissent argued that the statute requires all gray market goods to be excluded, and Customs need not involve itself in the relationships of the foreign manufacturer and the United States trademark owner, or questions of domestic goodwill. Only by deciding in advance that Section 526 does not exclude all gray market goods, notes the dissent, does the statute become complex; so the complexity cannot logically be the rationale for deciding that Section 526 does not exclude all gray market goods.

This simply worded statute is the subject of varying interpretations because a literal interpretation (such as that adopted in *COPIAT*) without an analysis of the stat-

ute's purpose to protect bona fide American owners of United States trademarks,* yields a result that is in direct conflict with the purpose of the legislation. The Federal Circuit in *Vivitar* was dealing with this central concern (although not expressly identifying it as a question of "ownership") when it noted:

> While we have rejected the government's argument that the statute must be interpreted as limited by the regulations, we must also reject the view that the statute may not have any implied limitations or that general principles such as "agency," "piercing the corporate veil," "sham" transactions, "estoppel," "fraud" or other defenses could not defeat an apparent right to invoke the statute.

761 F.2d at 1570. (emphasis supplied by the court). All of these factors refer to the issue of bona fide, beneficial ownership of the United States trademark by the claimant or plaintiff.

Viewed in this light, the Customs regulations are consistent with Section 526 and with Congress's desire to protect beneficial owners of United States trademarks from unfair competition. The Customs regulations do not limit the breadth of the statute, but rather they specify the type of ownership required in order to invoke the remedies

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* As Learned Hand has said:

> [I]t is true that the words used, even in their literal sense, are the primary, and ordinarily the most reliable, source of interpreting the meaning of any writing: be it a statute, a contract, or anything else. But it is one of the surest indexes of a mature and developed jurisprudence not to make a fortress out of the dictionary; but to remember that statutes always have some purpose or object to accomplish, whose sympathetic and imaginative discovery is the surest guide to their meaning. *Cabell* v. *Markham*, 148 F.2d, 737, 739 (2d Cir. 1945) aff'd, 326 U.S. 404, 66 S. Ct. 193, 90 L. Ed. 165.

provided by the statute. Section 526 requires that the trademark be beneficially "owned" by a United States citizen or company. The Customs regulations state that where the United States trademark owner is a company related to, affiliated with or controlled by the foreign manufacturer which placed the trademark on the goods, it is questionable whether the United States company possesses the requisite bona fide, economic ownership to invoke the statute. Customs is stating in the regulations that in such situations the real economic benefit of ownership is in the foreign parent or affiliate—and Customs will not enforce the statute for the benefit of an unintended foreign beneficiary.

This analysis resolves the apparent conflict between the statute and the regulations, and it explains fifty years of Congressional acquiescence in the regulations despite periodic review of the statute.* (The first limitation on the scope of Customs enforcement of Section 526 is found in the 1936 Customs regulations. See *Vivitar*, 761 F.2d at 1566.)

Amicus Darby asks this Court to reverse the D.C. Circuit's *COPIAT* decision and in so doing hold that Section 526 cannot be used by designated distributors of foreign manufacturers because they lack the requisite "ownership" interest in the United States trademark required by Section 526.

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* It also explains disparate district court gray goods decisions such as *Parfums Stern Inc.* v. *U.S. Customs Service*, 575 F.Supp. 416 (S.D. Fla. 1983), *Osawa & Co.* v. *B & H Photo*, 589 F.Supp. 1163 (S.D.N.Y. 1984), *Weil Ceramics & Glass, Inc.* v. *Dash*, 618 F.Supp. 700 (D.N.J. 1985) and *Model Rectifier Corp.* v. *Takachiho International, Inc.*, 221 U.S.P.Q. 502 (9th Cir. 1983) where the courts struggled to determine whether the plaintiffs had real economic interest in a United States trademark before granting or denying relief.

Cases such as *Premier* v. *Darby* demonstrate the need for this Court to recognize and state that "ownership" of the trademark is the key concept in Section 526, the concept which justifies and supports the Customs regulations at issue in *COPIAT*. In so doing this Court should hold that local affiliates of foreign manufacturers, whether they be subsidiaries, agents or exclusive designated distributors, do not have the requisite independent ownership interest in the trademark to invoke Section 526, which by its very terms can be used only by a citizen which is the owner of the United States trademark.

If the Court fails to do so Section 526 will become a tool used by foreign manufacturers against independent American importers and American consumers. That is the opposite of what Congress intended for the statute.

Conclusion

The Court should reverse the District of Columbia Circuit Court's ruling in *COPIAT*, and in so doing clarify by whom Section 526 can be invoked.

Respectfully submitted,

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Certificate of Service

The undersigned hereby certifies that on February 20, 1987 Three (3) copies of the within Amicus Curiae Brief of Darby Dental Supply Company, Inc., et al. were mailed by first class mail to each of the following attorneys:

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